

## Bachus: Committee Must Examine Why AIG Was Prevented From Disclosing Bailout Information

"There is no more urgent business before the Committee and this hearing should be given the highest priority."

WASHINGTON - Congressman Spencer Bachus, the top Republican on the Financial Services Committee, wrote to Chairman Barney Frank yesterday urging him to convene a hearing to examine the latest report that the Federal Reserve Bank of New York, under the leadership of Secretary Geithner, prevented AIG from disclosing information and documents related to its government bailout.

Bachus said, "Unfortunately, disclosure and transparency have been sorely lacking when it comes to congressional and public review of the circumstances surrounding AIG's bailout. For months, the public was prevented from knowing the names of AIG's counterparties and the extent to which AIG fulfilled its obligations to those firms. We learned today that it was the New York Fed that stepped in to prevent public disclosure of this information by deleting the counterparty names and payment information from AIG's draft regulatory filing. This calculated attempt to withhold important information from the public and market participants runs counter to the principles of our capital markets."

Ranking Member Bachus first questioned Secretary Geithner for information on whether foreign and domestic counterparties were paid 100 cents on the dollar during Committee hearings held on March 24th and March 26th 2009. Bachus also questioned Geithner regarding reports that U.S. banks are being asked to take haircuts. On November 23, 2009, Bachus sent this letter to Treasury Secretary Geithner asking for additional information regarding the extent to which AIG has met its obligations to U.S. banks that are creditors.

Bachus said, "As you know, since March 2009 I have raised concerns, and called for hearings, regarding the disparate treatment of U.S. banks and foreign institutions by insurance giant American International Group (AIG). ... In November 2009, I wrote to Secretary Geithner requesting an explanation of the extent to which AIG met its obligations to creditors that are U.S. banks. Unfortunately, to this day, Secretary Geithner has provided no explanation."

"There is no more urgent business before the Committee and this hearing should be given the highest priority," Bachus stated.

NOTE: Click [here](#) to view a copy of the letter.

Bachus has called for the Financial Services Committee to convene hearings on AIG's counterparty payments since March 2009. Bachus wrote to Chairman Frank to request hearings on March 25, 2009, July 17, 2009, and November 19, 2009.

Transcript of Ranking Member Bachus questioning Secretary Geithner during Financial Services Committee hearings follow:

Transcript from March 24, 2009 Hearing:

BACHUS: Thank you.

Secretary Geithner, on September 14th, you and Secretary Paulson met with AIG to discuss Lehman's failure and their worsening condition.

GEITHNER: We had a series of meetings in the days preceding the action by the Fed on the 16th...

BACHUS: On the 16th, OK.

GEITHNER: ... with AIG and a range of other financial institutions. As the chairman said, you know, the -- the world was going through a -- a...

BACHUS: Oh, yeah, I understand that, but you met with them and as a result of that -- those meetings, September 16th there was a government intervention supervised, coordinated, and led by the New York Fed, and you were president of the New York Fed.

GEITHNER: I was president of the New York Fed.

BACHUS: At September 16th, the government became the 79.9 percent owner of AIG, is that correct.

GEITHNER: That is correct.

BACHUS: All right. Then there was a \$85 billion government guarantee that went to AIG -- or funds, is that correct?

GEITHNER: That's correct.

BACHUS: Then on October the 8th, a good amount of that money was paid to the counterparties. is that correct?

GEITHNER: Well, again, the purpose of the intervention was to prevent default by AIG because the -- our judgment was the consequences of default would have been catastrophic to the American economy, and so...

BACHUS: Sure. I understand that.

GEITHNER: So AIG was able to, as a result of the intervention -- to meet a full range of its obligations as a large complex financial institution.

BACHUS: Sure, I understand that. But what I am saying is that took over on September 16th, then on October the 8th began to pay the counterparties off.

GEITHNER: Well, again, throughout that period of time -- and this was critically important to the stability of the financial system -- we wanted to make sure AIG was able to meet its commitments.

BACHUS: I understand that, to pensioners, to retirees, to...

GEITHNER: Municipalities.

BACHUS: ... Municipalities.

GEITHNER: To banks.

BACHUS: But what I'm saying is within about two weeks these payments were made to the counterparties. I'm not...

GEITHNER: Well, I think probably within hours, technically.

BACHUS: Within hours, OK.

GEITHNER: Within minutes, probably.

BACHUS: All right. Within hours. Now, you know, there's been now a total of somewhere over \$50 billion worth of these payments to counterparties. I'm very interested in that.

I mean -- and we --these payments to counterparties -- these were parties that took a risk in entering into agreements with AIG, were they not?

GEITHNER: Absolutely.

BACHUS: OK. And these were credit default swaps, securities lending, things of that nature, which you can lose money on.

GEITHNER: Well, any insurance contract written by AIG posed risks to the person who bought that insurance contract.

BACHUS: Sure. And a credit default swap is sort of a -- I guess you could call it a form of insurance. But what...

GEITHNER: (inaudible)

BACHUS: ... I'm saying is it was an agreement between two parties.

GEITHNER: (inaudible)

BACHUS: And AIG defaulted or as on the verge of defaulting

GEITHNER: AIG was. Well, AIG was on the verge of default, so.

BACHUS: OK.

GEITHNER: ... again, any of the contracts AIG had with millions of people who bought insurance from it, from.

BACHUS: Well, I understand those people and those contracts with people, you know, retired teachers, etc. But now I'm focusing on the counterparties. Were they repaid 100 percent of everything AIG owed them, is that correct?

GEITHNER: I'm not sure if technically that's right. But, again, the purpose of the intervention was to ensure.

BACHUS: No, I'm not talking about the purpose of the intervention. I'm.

GEITHNER: No, but the result of the intervention was, AIG was able to meet its obligations under its full reach of insurance contracts.

BACHUS: But what I'm saying.



GEITHNER: (inaudible) contract.

BACHUS: Mr. Chairman, or Secretary, is that AIG's counterparties were paid 100 cents on the dollar.

GEITHNER: The people that had contractual obligations from AIG, (inaudible) bought an insurance protection product or a basic insurance product.

BACHUS: Well, we're not talking about.

GEITHNER: (inaudible) were paid.

BACHUS: ...insurance policies here. I'm talking about.

GEITHNER: No, but this is very important.

BACHUS: I'm talking about the foreign banks, Goldman Sachs. They were paid 100 cents on the dollar, were they not?

GEITHNER: Again, that was the purpose and result of

BACHUS: Well, I'm talking about -- I'm just saying, they were paid 100 percent of what they were owed. Is that.

GEITHNER: AIG was able to meet its commitments, and met its commitments.

BACHUS: At 100 percent.

GEITHNER: It fully met its obligations, yes.

BACHUS: Sure. Fully met its obligations.

GEITHNER: Yes.

BACHUS: Well, my question to you -- and I'm not -- was there any discussion over a haircut or a 95 percent -- taking 95 percent or 90 percent as full payment?

GEITHNER: We explored at that time every possible means to reduce the drain on their resources.

BACHUS: Well.

GEITHNER: Including what you referred to. But again, because we have no legal mechanism in place for dealing with this, like we deal with the banks, we did not have the ability to selectively impose losses on their counterparties.

BACHUS: You were 80 percent owners.

Transcript from March 26, 2009 hearing:

BACHUS: Thank you.

Secretary Geithner, Mr. Klein talked to you about too big to fail, and you want to get away from that as quickly as possible.

GEITHNER: I do, and I think that, again, the critical test for any system should be is our system strong enough that we can handle failure, even of the largest institutions. That is a critical objective that's underpinning everything we do.

BACHUS: Thank you.

Your draft legislation authorizes the FDIC to spend an unlimited amount of money, of taxpayers' cash, to prop up or unwind supposedly systemic important firm -- or actually, the words are "such sums as are necessary."

Isn't that what we've been doing that the taxpayers and American citizens are so upset about?

GEITHNER: You said in your opening remarks, and you're saying again now, that this question about who bears the losses, how you pay for these things, is very -- is very important, complicated.

And we are going to have to look carefully at how the costs of these interventions are shared across the system.

Right now, in the current system, it's fundamentally unfair, because smaller banks are forced to absorb a disproportionate cost of interventions needed to protect the system from often mistakes made by larger institutions.

BACHUS: But...

GEITHNER: So we would like to change that and put in place a fee structure that is a bit more just and fair in that context.

BACHUS: But wouldn't a fair structure be not to prop them up with any taxpayer money?

GEITHNER: Well, I think -- again, as this crisis reveals, and as the crisis of -- the thrift and loan crisis -- the S&L crisis in the early '90s revealed, there are circumstances in which it is cheaper for the taxpayer over time and -- and -- and less damaging for the country over time for the government to take some risk in preventing greater costs not just to the deposit insurance fund but to the rest of the system.

That's the balance we have...

BACHUS: Well, I'm talking...

GEITHNER: ... to strike. That's...

BACHUS: ... about is there really no alternative than saddling future generations of Americans with perhaps hundreds of billions of dollars' worth of losses for the mistakes of a few institutions that grow too large or too complex?

GEITHNER: In -- what -- what has to guide what we do is how do we protect the system at least cost to the taxpayer. And in emergencies, in extremis, as we've seen, letting institutions fail can cause far greater damage -- you know, acute catastrophic damage -- to the fortunes of all Americans.

BACHUS: All right.

GEITHNER: And so there may be circumstances in which -- with carefully designed constraints, that it is more effective for the country and for the taxpayer for there to be carefully designed emergency authority to step in and prevent failure.

BACHUS: I'd submit to you that such sums that are necessary is too open-ended, but -- Secretary Geithner, I -- in my opening statement, I talked about that within hours -- you said within minutes -- of the AIG intervention billions of dollars went to the foreign banks.

GEITHNER: Well, I -- can I just clarify that?

BACHUS: Yeah.

GEITHNER: What I said is the purpose of the action was to ensure they could meet their commitments. And therefore, that had impact...

BACHUS: AIG.

GEITHNER: ... immediately -- immediately -- on their ability to meet their commitments. I don't actually -- didn't mean to say -- minutes they were making payments, but...

BACHUS: Sure, OK. Within minutes, they were -- or, you know, hours.

GEITHNER: They were able.

BACHUS: I mean, I said hours, and you said minutes. But I mean, even if it was a few days -- it was to allow them to not default on their obligations.

GEITHNER: That was the purpose of the action.



BACHUS: Right.

GEITHNER: But the...

BACHUS: Now, they have obligations to a lot of American banks. In fact, you know, I said pensioners and retirees. You added municipalities and banks. How about the U.S. banks were obligations of AIG. They're in default today. They were in default then.

GEITHNER: Mr. Bachus, I heard your question, and I need to understand a little bit more the precise examples you're -- you're referring to. I would be happy to look at that and get back to you.

BACHUS: Sure.

GEITHNER: Understand if it seems unfair, we'll have to fix it, but I want to take a more careful look at -- at what you're suggesting.

BACHUS: Sure. And what I'm talking about -- let me tell you, what was paid off, dollar for dollar, were these risky credit default swaps, in most cases, which were the financial products subsidiary that wrote those. That's what you paid off dollar for dollar.

What is still not being paid off is the more traditional loans to AIG of actual money, and do you not -- do you understand my concern?

GEITHNER: I completely, completely understand your concern, but I -- I want to look more -- in more detail at the precise examples you're -- because -- because they don't -- they don't -- I need to understand those better, and I'll give you a more thoughtful answer.

BACHUS: Yeah, and I'm talking about U.S. banks, federally insured U.S. banks, that made secured loans to a subsidiary of AIG, and they're being told -- they're being offered 20 or 30 cents on the dollar -- U.S. companies doing business in Florida, Alabama, Tennessee.

GEITHNER: As -- as I said, I'll -- we'll -- I'll work with the chairman. We'll come back to you and give you a detailed response.